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19 AUG 1976

MEMORANDUM FOR: Chief, Management and Assessment Staff

FROM : Thomas B. Yale
Director of Finance

SUBJECT : Presidential Management Initiatives

25X1A 1. The following is provided in accordance with your request of 16 August 1976 to [REDACTED].

a. We are applying productivity measurement techniques to our processing functions for payroll, travel vouchers and vendor invoices.

b. There is attached a copy of a memorandum for DDM&S dated 24 June 1974 which may be of interest to you on the contracting out topic. I would assume memos on the same topic were submitted by each of the other DDM&S offices.

25X1A c. The Agency's principal tool for limiting travel costs is through budgetary limitations. Beyond that Agency travel policy as emphasized in Agency travel regulations make it incumbent on authorizing officials to authorize or approve travel only for purposes which are clearly in the best interest of the Government. The Agency has a Travel Policy Committee which serves as a focal point within the Agency for making recommendations for changes in Agency travel policy and for coordination of travel regulations. Among the stated responsibilities of this Committee is the evaluation of Agency travel policies to improve efficiency, reduce costs, and facilitate equity and consistency in the execution of travel policy and regulations. Additionally, as required by OMB Bulletin 76-9 the Agency published a notice ([REDACTED] copy attached) to reemphasize the continuing need for avoiding nonessential travel.

[REDACTED]
Thomas B. Yale

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Attachments
As Stated

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24 JUN 1974

MEMORANDUM FOR: Deputy Director for Management and Services
SUBJECT : Performance of Functions by Contract
REFERENCE : DD/M&S 74-1758 dtd 29 May 1974, Same Subject

1. This memorandum, as requested by reference, provides general comments relevant to the matter of contracting for the accomplishment of selected functions of this office.

a. Commercial Contract Audits. The CSAD function for the conduct of audits of commercial contractors and preparation of cost analyses of contractor proposals legally could be accomplished by contracting. The following comments therefore are to highlight considerations other than the disadvantageous factors cited in reference - degradations in responsiveness, security and increased costs.

(1) Work Force Stability. It seems probable that the quality of work might very well suffer due to lack of continuity of personnel to be assigned to the succession of tasks (cost analysis, interim audits and final audit) to be accomplished over the life of a particular contract. This conjecture is made on the basis of known facts about turn over problems in CPA firms. On this point there follows an excerpt from an article which appeared in the December 1973 issue of the Journal of Accountancy:

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"The rapid growth of public accounting has been paralleled by changes in the organizational structure of public accounting firms. The need to provide professional audit, tax and management advisory services to large and often widely dispersed clients

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CONFIDENTIAL

SUBJECT: Performance of Functions by Contract

CPYRGHT

has caused large, multi-office CPA firms to develop. Recruiting and developing professional personnel for these offices consume a significant percentage of gross revenues and thousands of non-billable man hours. Even with this huge outlay of resources, many of these firms retain only 4 to 16 percent of their personnel over a ten year period. In some cities over 50% of new hires are gone within three years."

(2) Conflict of Interest. There would seem to be some degree of potential for conflict of interest considerations that would be difficult to monitor or control. This observation is made in the context that a CPA firm of the size that might likely be involved in contracting for the level of effort envisioned for Agency requirements might well already have as a client the Agency's prospective contractor. This would seem to cause immediate questions as to the objectivity with which the audit or cost analysis proposal on our behalf could be accomplished.

(3) Proprietary Interests. There could well arise a situation in which a prospective contractor would be in direct competition with other contractors who might be known clients of the CPA firm doing our audit work. In such a case our prospective contractor could easily be reluctant to permit full audit and examination of his records because of concerns for the proprietary information that might be obtained from such review and examination.

(4) DCAA Liaison. There likely would be problems in DCAA willingness to release information to public accounting firms. As you know, we in many cases rely very heavily on information made available to us by DCAA.

CONFIDENTIAL

CONFIDENTIAL

SUBJECT: Performance of Functions by Contract

(5) Security. Over and beyond the direct security considerations which would be involved in the continuing process of clearing CPA firm personnel, there would be a distinct security problem in establishing a pattern of using CPA firm for audit work on government contracts. This practice would quickly tag such contracts as CIA unless or until other Agencies begin to handle their audit work in the same manner.

b. Payroll Functions

(1) As a basis for discussion of contracting for accomplishment of this function it would seem useful to briefly describe the overall process and to delineate its principal parts. The overall process is highly complex and involves continuing interaction between and among:

(a) Office of Finance (control and/or compute payment of salary and allowances; monitor or maintain leave records; control and report withholdings for taxes, retirement and other authorized purposes).

(b) Office of Personnel (preparation of personnel actions - EOD's, promotions, PSI's, QSI's, LWOP's, separations, retirements, etc.).

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(d) Component time and attendance clerks, stations and employees.

(e) Office of Joint Computer Support (pay computation and associated reports, magnetic tape for checks and bond preparation).

(f) U.S. Treasury (check preparation and bond issuance).

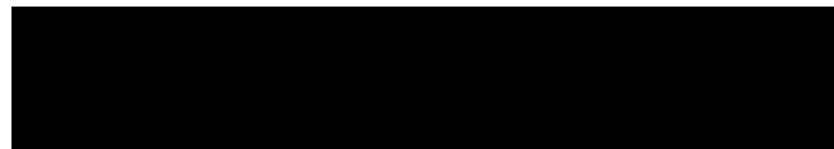
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SUBJECT: Performance of Functions by Contract

(g) Civil Service Commission (retirement matters, resolution of technical questions).

25X1A



(i) Labor (FEC Claims).

(j) IRS and State Taxing authorities (servicing questions about employee tax documentation for CIA as employer).

(2) Although it is apparent from the foregoing that the overall process is highly integrated with other Agency components and other agencies, the focus of the comments which follow will be on contracting out of the functions for which the Office of Finance is responsible. Insofar as the supportive role of other components are concerned it seems apparent that the only role subject to contracting out would be that of the Office of Joint Computer Support. There would be no possibility of which we are aware for using an outside contractor for the services which are provided by the U.S. Treasury. It would seem unlikely that it would be feasible to contract for the roles now satisfied by the Office of Personnel, Cover and Commercial Staff component time and attendance clerks, stations and employees.

(3) Approximately 90% of Agency personnel are payrolled under the automated payroll system. Due to security considerations it seems unlikely any consideration should be given to contracting out for payrolling of the remaining 10%, for which a considerable amount of manual processing is required; it is relevant to note that roughly one-fourth of Compensation and Tax resources are applied to payrolling this category of personnel.

4
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SUBJECT: Performance of Functions by Contract

(4) The Compensation and Tax Division plays a role of many facets:

(a) it has the substantive responsibility for the integrity of the ongoing payroll process supportive of the certifications on which Treasury checks are issued and for the Director's certification for the confidential funds payroll. The exercise of this responsibility runs the gamut from identifying requirements for system changes to establishing, monitoring and policing controls over the accuracy of each biweekly payroll.

(b) under normal operating conditions it is a "bridge" between:

1. Component time and attendance clerks/stations and OJCS,
2. Office of Personnel and OJCS,
3. OJCS and Treasury,
4. Treasury and employees and
5. the Agency and other agencies and State taxing authorities.

(c) it has a vital daily action role in answering telephone questions and memos from employees and time and attendance clerks concerning payroll matters and in servicing cable and dispatch correspondence from the field concerning pay status of individuals. It implements actions on the basis of information provided from a variety of sources to change payroll status as required, e.g., arrivals and departures at differential posts, changes in SMA status, post allowance changes, and notice [REDACTED] promotions.

25X1A

5
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SUBJECT: Performance of Functions by Contract

It would be extremely difficult on a realistic basis to isolate on a discrete basis any meaningful part of the foregoing that could reasonably be subject to accomplishment by an outside contractor.

2. In summary I must conclude it would be to neither the Government nor Agency's best interest to contract for the accomplishment of any portion of the above functions. As surmised by reference the obvious disadvantages of degradations of responsiveness and security coupled with increased costs would obtain -- and to a degree that would inordinately outweigh the single advantage of any possible reduction in Agency T/O.

(signed) Thomas B. Yale

Thomas B. Yale
Director of Finance

Distribution:

0 & 1 - Add.
1 - D/F
1 - DD/P&S

25X1A OF/ [REDACTED] da (24 Jun 74)

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6

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